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# *Soviets Plagued With Shortages, Inflation*

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MOSCOW—The Soviet economy, the world's largest state-run enterprise, is entering the new year amid clear signs of crisis.

Food shortages and soaring inflation have been created by three successive bad harvests, the strain of military competition with the United States, and the overall costs involved in maintaining an empire ranging from Cuba to Vietnam to Afghanistan to Poland.

But there are growing indications of basic structural weakness that the centrally planned system is imposing on the Soviet economy, which today is second in size, complexity and strength only to America's.

While the rule by decree may have been effective in previous de-

cades in laying the infrastructure for industrialization of a young Soviet state, the system now appears in danger of choking itself in its own cumbersomeness.

There are two additional and long-term factors that are only beginning to affect the economy.

One is the harsh fact that the Soviet Union is no longer a producer of low-cost energy conveniently located in European Russia. Rather, it is becoming a high-cost producer and poorly efficient consumer of abundant resources located in distant Siberia and becoming increasingly costly.

The other is posed by an acute demographic problem. The country's rate of population growth has been falling since 1960, when it was twice the current level of 0.84 percent per

year. Economic forecasts warn that acute labor shortages should be expected "in the most immediate future."

The Kremlin leaders have introduced reforms to refine the existing system. New financial incentives and modest decentralization steps have been taken in an effort to raise labor productivity. But there has been resistance to these reforms at the local level.

There was a note of near despair in recent speeches by President Leonid Brezhnev when he called for harder work, increased motivation and new improvements.

The economic system has also come under public attacks in the Soviet press. "We obviously have an abnormal situation here," the Communist Party newspaper *Pravda* said last week. "The planning mechanism was supposed to have been improved, yet we did not get rid of old sins." *Pravda* directly attacked the state planning commission for various economic setbacks.

A commentary in the daily *Sovetskaya Rosiya* also minced no words about the difficulties. Criticizing low labor productivity, the paper said that new reforms were not being implemented. "The labor organization in factories is not functioning," it added, "and the second misfortune lies in the fact that the economic system itself is not working" as it should.

Despite growing frankness in the media about the nature of Soviet economic difficulties, there are no

new or radical ideas on remedies to be applied.

The lack of a rational pricing system has burdened the \$460 billion annual budget with the costs of ever-growing subsidies. At the same time, Moscow had to budget a 50 percent increase in its energy investment plan—to over \$170 billion over the next four years—to produce marginal net increments in oil, coal and electrical energy output.

According to official figures, 27 percent of the entire investment allocations continue to be channeled into the weak agricultural sector, while well over \$6 billion will have to be spent for grain and fodder imports again this year.

The exact figures for military expenditures are not disclosed here. But there are clear signs that the Russians felt compelled to divert some additional resources for defense purposes in response to President Reagan's plans to rebuild U.S. strategic strength. The Kremlin has reduced its planned capital expenditures on capital construction by \$42 billion during the current five-year plan.

The Polish crisis has posed additional economic strains. Soviet raw material, energy and food shipments to Poland have been extensive. The Poles and other Soviet allies are getting Soviet oil at 50 percent of the OPEC price. Meat shipments to Poland have further reduced availability of meat in the Soviet Union.

The Polish crisis also has produced economic dislocations within the Soviet bloc economies. This is taking place at a time when the cost of supplying 10 million tons of oil to Cuba and supporting clients in Africa and Asia are steadily increasing.

The economic situation with its accumulated difficulties provide economic evidence for Moscow's sincerity in arms reduction talks with the United States.

It also provides an insight into the proverbial lethargy of Soviet bureaucracy, which has resisted changes in the economic system.

The combination of adverse long-term trends and the pressure to match America's military spending may create conditions here for radical changes in the economy. The present leadership, however, is committed to modest changes and cautious rejiggering of resources.